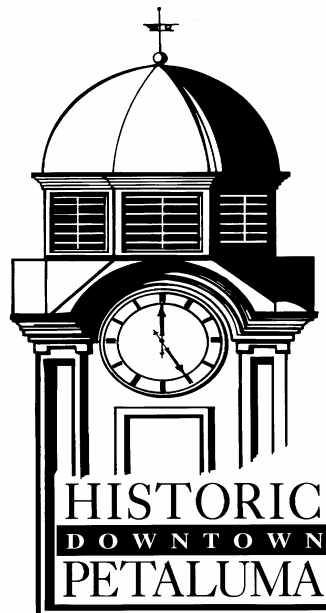


**PETALUMA COMMUNITY
DEVELOPMENT COMMISSION**

CITY OF PETALUMA, CALIFORNIA

**BASIC FINANCIAL STATEMENTS and
Independent Auditors' Reports
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**



Petaluma Community Development Commission
Basic Financial Statements
For the year ended June 30, 2007

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INDEPENDENT AUDITORS' REPORT

To the Commissioners
of the Petaluma Community Development Commission
Petaluma, California

We have audited the accompanying basic financial statements of the governmental activities and each major fund, of the Petaluma Community Development Commission (Commission), a component unit of the City of Petaluma (City), as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Governmental Accounting Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Commission as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with generally accepted accounting principles in the United States.

In accordance with Government Auditing Standards, we have also issued our report dated November 26, 2007 on our consideration of Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulation, contracts and grant. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying Required Supplementary Information, such as management's discussion and analysis and budgetary information as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

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To the Commissioners
of the Petaluma Community Development Commission
Petaluma, California

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Commission's basic financial statements. The accompanying supplementary information is presented for purpose of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Capricci & Carlson

Oakland, California
November 26, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Petaluma Community Development Commission (PCDC), we offer readers of the PCDC's financial statements this narrative overview and analysis of the financial activities of the PCDC for the fiscal year ended June 30, 2007.

We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in our letter of transmittal, which can be found on page i of this report.

FINANCIAL HIGHLIGHTS

Government-Wide Financial Statements

- PCDC assets exceeded its liabilities at June 30, 2007 by \$15.1 million (net assets). Of this amount, a negative \$7 million was invested in capital assets, net of related debt. The restricted balance was: restricted for special projects \$17.8 million, and restricted for debt service \$.7. Net assets unrestricted balance was \$3.6 million.

Fund Financial Statements

- At the close of the fiscal year, the PCDC's governmental funds, including the special revenue fund, debt service fund, and capital project fund, reported combined ending fund balances of \$49.3 million, an increase of \$31.9 million from the prior year. The 2007 fund balance was comprised of \$15.6 million reserved fund balance and \$33.7 million unreserved fund balance.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to PCDC's Basic Financial Statements. The Basic Financial Statements consist of three components: 1) Government-Wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Financial Statements. This report also contains other required supplementary information, in addition to the Basic Financial Statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Government-Wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities and Changes in Net Assets, which are designed to provide readers with a broad overview of PCDC's finances, in a manner similar to a private-sector business. On the Government-Wide Financial Statements, PCDC has only governmental activities.

The Statement of Net Assets presents information on all of PCDC's assets and liabilities, with the difference between the two reported as net assets. Over time, changes in the net assets may serve as a useful indicator of whether the financial position of PCDC is improving or deteriorating.

The Statement of Activities presents the change in the agency's net assets during the current fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The Government-Wide Financial Statements can be found on pages 14 and 15 of this report.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS, CONTINUED

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. PCDC uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

All of the funds of PCDC are governmental funds. Included in this type of funds are special revenue funds, debt service funds, and capital project funds. These funds are reported using the modified accrual accounting method, which measures cash and all other financial assets that can be readily converted to cash. The Governmental Fund Statements provide a detailed short-term view of PCDC's operations and services provided.

Governmental Funds - Governmental funds account for basically the same functions as reported as government activities in the Government-Wide Financial Statements. However, unlike the Government-Wide Financial Statements, Governmental Fund Financial Statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the agency's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the Government-Wide Financial Statements, it is useful to compare the information presented for governmental funds in the Governmental Fund Financial Statements with similar information presented for governmental activities in the Government-Wide Financial Statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the Governmental Fund Balance Sheet, and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The governmental funds information is presented in the Governmental Fund Financial Statements for the PCDC. All PCDC funds are presented as major funds.

The Basic Governmental Fund Financial Statements are on pages 20-24 of this report.

NOTES TO THE BASIC FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the Government-Wide and Fund Financial Statements. The Notes to the Basic Financial Statements begin on page 25 of this report.

OTHER INFORMATION

In addition to the Basic Financial Statements and accompanying notes, this report also presents certain required supplementary information. The budgetary comparison statements have been provided for the governmental funds to demonstrate compliance with the legal provision of the 2006-2007 appropriation ordinance. The Required Supplementary Information begins on page 44 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets - As noted earlier, net assets are an indicator of the agency's financial position. In the case of the PCDC, the net assets (the amount by which total assets exceeded total liabilities) equaled \$15.1 million at the close of the fiscal year.

The largest portion of the Agency's net assets reflects assets restricted for special projects. The majority of PCDC's revenue comes from tax increment, the use of which is restricted by law. A minor portion of net assets is restricted for debt service.

Net assets invested in capital assets, net of related debt is a negative amount, as debt is in excess of capital assets. PCDC contributes its capital assets to the City of Petaluma. The City is required to maintain all PCDC assets, as PCDC funds cannot be used for maintenance. The agency retains only construction in progress (CIP), until it is completed. As CIP is completed, it will be contributed to the City.

30% of PCDC's net assets are unrestricted and may be used to meet the agency's ongoing obligations to citizens and creditors, subject to restrictions of various funding sources, as applicable.

Net assets of PCDC increased 46%, to \$15.1 million.

Summary of Net Assets
as of June 30, 2007 and 2006
(in thousands)

	2007 Governmental Activities	2006 Governmental Activities	Change Increase/(decrease)
Assets:			
Capital Assets (net)	\$ 37,565	\$ 35,491	\$ (2,074)
Other Assets	54,897	23,020	(31,877)
Total Assets	<u>92,462</u>	<u>58,511</u>	<u>(33,951)</u>
Liabilities:			
Long-term Liabilities	73,760	44,069	(29,691)
Other Liabilities	3,617	4,097	480
Total Liabilities	<u>77,377</u>	<u>48,166</u>	<u>(29,211)</u>
Net Assets:			
Invested in Capital Assets			
Net of Related Debt	(6,994)	(9,634)	(2,640)
Restricted	18,454	17,338	(1,116)
Unrestricted	3,625	2,641	(984)
Total Net Assets	<u>\$ 15,085</u>	<u>\$ 10,345</u>	<u>\$ (4,740)</u>

GOVERNMENT-WIDE FINANCIAL ANALYSIS, CONTINUED

Statement of Activities and Changes in Net Assets - PCDC's total revenues (excluding the items discussed below) were consistent with the prior year's, approximately \$15 million. FY 2006 included a reduction in general revenue of \$12 million, which is the value of the capital assets PCDC contributed to the City during that year. Additionally, FY 2006 included \$2 million transfer in from the City to fund PCDC CIP projects, which was not repeated in PY 2007.

The total program costs were also consistent with prior year's.

Summary of Changes in Net Assets			
for the Years Ended June 30, 2007 and 2006			
(in thousands)			
	FY 2007	FY 2006	Change
	Governmental	Governmental	Increase/(decrease)
	Activities	Activities	
Revenues:			
Program Revenue:			
Charges for Services	\$ 71	\$ 18	\$ 53
Operating Grants and Contributions	51	105	(54)
Capital Grants and Contributions	187	324	(137)
Total Program Revenue	309	447	(138)
General Revenues:			
Tax Increment	15,697	14,181	1,516
Investment Earnings	924	456	468
Miscellaneous	-	292	(292)
Contributions to City	(1,457)	(12,286)	10,829
Transfers from City	-	2,259	(2,259)
Total General Revenues	15,164	4,902	10,262
Total Revenues	15,473	5,349	10,124
Expenses:			
Community Development	8,326	8,039	287
Interest on Long-Term Debt	2,407	1,959	448
Total Expenses	10,733	9,998	735
Excess of Revenues over Expenses	4,740	(4,649)	9,389
Net Assets:			
Beginning Assets	10,345	14,994	(4,649)
Ending Net Assets	\$ 15,085	\$ 10,345	\$ 4,740

FUND FINANCIAL STATEMENT ANALYSIS

Governmental Funds-The focus of the PCDC's governmental funds is to provide information on near-term inflows, outflows and balances in spendable resources. Such information is useful in assessing PCDC's financing requirements. In particular, unreserved fund balance may service as a useful measure of the agency's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, PCDC reported combined ending fund balances of \$49.3 million. This is an increase of \$31.9 million from the prior year, primarily due to the 2007 TAB debt proceeds.

\$15.6 of the fund balance is reserved, the majority for notes receivables. Unreserved fund balance reported in special revenues funds is \$3.6 million, and unreserved funds reported in capital project funds was \$30.1 million.

PCDC's revenue is consistent with prior year except for the increase in investment interest. This increased from 3% of total revenue to 6% of total revenue due to increased interest rates, and increase in cash balances at year end as a result of the 2007 TAB.

PCDC's capital project expenditures decreased substantially from the prior year, due to the completion of the major PCDC improvement projects in PY 2006. Debt service costs have risen as a result of the 2005 TAB.

Revenue Classified by Source Governmental Funds for Years ending June 30, 2007 and 2006 (in thousands)							
	FY 2007		FY 2006		Increase/(Decrease)		
	Amount	% of Total	Amount	% of Total	Amount	% of Total	
Taxes	\$ 15,697	92%	\$ 14,181	94%	\$ 1,516	78%	
Use of money and property	1,024	6%	456	3%	568	29%	
Intergovernmental	239	1%	105	1%	134	7%	
Charges for services	23	0%	11	0%	12	1%	
Other revenue	48	0%	331	2%	(283)	-15%	
Total	<u>\$ 17,031</u>	<u>100%</u>	<u>\$ 15,084</u>	<u>100%</u>	<u>\$ 1,947</u>	<u>100%</u>	

Expenditures Classified by Function Governmental Funds for Years ending June 30, 2007 and 2006 (in thousands)							
	FY 2007		FY 2006		Increase/(Decrease)		
	Amount	% of Total	Amount	% of Total	Amount	% of Total	
Community development	\$ 8,269	57%	\$ 8,133	36%	\$ 136	-2%	
Capital outlay	2,086	14%	11,573	51%	(9,487)	113%	
Debt service principal	1,140	8%	672	3%	468	-6%	
Debt service interest/fiscal charges/COI	2,929	20%	2,418	11%	511	-6%	
Total	<u>\$ 14,424</u>	<u>100%</u>	<u>\$ 22,796</u>	<u>100%</u>	<u>\$ (8,372)</u>	<u>100%</u>	

FUND FINANCIAL STATEMENT ANALYSIS, CONTINUED

Summary of Balance Sheet			
Governmental Funds			
as of June 30, 2007 and 2006			
(in thousands)			
	2007	2006	Change
	Governmental	Governmental	Increase/(decrease)
	Activities	Activities	
Assets:			
Total	<u>53,406</u>	<u>52,679</u>	<u>727</u>
Liabilities:			
Total	4,136	35,334	(31,198)
Fund Balance:			
Reserved	15,589	49,263	(33,674)
Unreserved, undesign in sp rev funds	3,566	2,135	1,431
Unreserved, undesign in cap proj funds	<u>30,114</u>	<u>(34,053)</u>	<u>64,167</u>
Total	<u>49,269</u>	<u>17,345</u>	<u>31,924</u>
Total liabilities and fund balance	<u>\$ 53,405</u>	<u>\$ 52,679</u>	<u>\$ 726</u>

PCDC BUDGETARY HIGHLIGHTS

The difference between the PCDC final amended revenue budget and the year end actual revenue amounts was a positive variance of \$21.2 million. The following summarizes the differences:

- A variance in the amount of \$4.7 million in the special revenue funds resulted from less expenditures on LMI programs than budgeted, and less grant/donation revenue received, resulting in less transfers out, than budgeted.
- A negative variance in debt service fund of \$.5 million was a result of unbudgeted payments to escrow agents and under budgeted cost of issuance related to the 2007 TAB.
- A positive variance of \$17 million in the capital project fund resulted from program expenses less than budgeted and capital expenses less than budgeted. The apparent discrepancy between budgeted and actual transfers in and out is a result of the elimination of the transfer between the admin fund and the project fund.
- The difference between the PCDC final amended appropriations and the year end actual expenditures was a negative variance of \$28.9 million. The majority of this is attributed to the budget revision to allow the transfer of \$30 million 2007 TAB debt proceeds from debt service fund to the capital project fund.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

PCDC's capital assets as of June 30, 2007 consist of construction in progress, and equaled \$37.6 million. (There is no depreciation associated with construction in progress.) Total investment in capital assets increased by the net amount of approximately \$2.6 million. Detailed information about PCDC's capital assets is contained in Note 7.

Capital Assets (net of depreciation)			
as of June 30, 2007 and 2006			
(in thousands)			
	Balance 6/30/07	Balance 6/30/06	Increase (Decrease)
Construction in progress	<u>\$ 37,565</u>	<u>\$ 35,491</u>	<u>\$ 2,074</u>

Long-term Debt

At the end of the current fiscal year, PCDC had total long term debt of \$74.8 million, which is secured by future tax increment revenue. The Moody's rating for PCDC is Aaa (A3 underlying) Additional information about PCDC's long-term debt is in Note 8 of this report.

Governmental Activities Long-Term Debt			
as of June 30, 2007 and 2006			
(in thousands)			
	Balance 6/30/07	Balance 6/30/06	Increase (Decrease)
2000A Tax Allocation Bonds	\$ 295	\$ 430	\$ (135)
2000B Tax Allocation Bonds	-	585	(585)
2001A Tax Allocation Bonds	2,410	2,700	(290)
2003A Tax Allocation Bonds	23,200	23,630	(430)
2003A TAB Unamortized Discount	(12)	(13)	1
2005A Tax Allocation Bonds	18,165	18,265	(100)
2005A TAB Deferred Amt Refunding	(1,149)	(1,198)	49
2005A TAB Unamortized Premium	151	157	(6)
2007 Tax Allocation Bonds	31,825	-	31,825
2007 TAB Unamortized Discount	(564)	-	(564)
Assessment District 19 TAB	<u>490</u>	<u>570</u>	<u>(80)</u>
Total	<u>\$ 74,811</u>	<u>\$ 45,126</u>	<u>\$ 29,685</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Petaluma's economy, and like-wise PCDC's, is clearly linked to the national and state economies. These continue to grow at a sluggish rate Property values continue to rise in Sonoma County, and tax increment growth is healthy.

CONTACTING PCDC'S FINANCIAL MANAGEMENT

The Basic Financial Statements are intended to provide citizens, taxpayers, investors, and creditors with a general overview of PCDC's finances. Questions about this report should be directed to the Administrative Services Department, at 11 English Street, Petaluma, California 94952.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

Petaluma Community Development Commission
Statement of Net Assets
June 30, 2007

	Governmental Activities
ASSETS	
Current assets:	
Cash and investments	\$ 5,392,190
Restricted cash and investments with fiscal agents	30,468,843
Accounts receivable, net	458,113
Intergovernmental receivables	440,139
Total current assets	<u>36,759,285</u>
Noncurrent assets:	
Noncurrent receivables	1,752,745
Notes receivable	14,491,820
Deferred charges	1,490,228
Land held for resale	402,053
Construction in progress	37,565,337
Total noncurrent assets	<u>55,702,183</u>
Total assets	<u><u>92,461,468</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	83,711
Wages payable	24,300
Interest payable	601,039
Due to the City of Petaluma	1,620,000
Refundable deposits	147,423
Compensated absences - due within one year	17,933
Long-term debt - due within one year	1,122,275
Total current liabilities	<u>3,616,681</u>
Noncurrent liabilities:	
Compensated absences - due in more than one year	71,325
Long-term debt - due in more than one year	73,688,519
Total noncurrent liabilities	<u>73,759,844</u>
Total liabilities	<u><u>77,376,525</u></u>
NET ASSETS	
Invested in capital assets, net of related debt	<u>(6,994,663)</u>
Restricted for:	
Debt service	681,264
Special projects	17,773,177
Total restricted	<u>18,454,441</u>
Unrestricted	<u>3,625,165</u>
Total net assets	<u><u>\$ 15,084,943</u></u>

See accompanying Notes to Basic Financial Statements.

Petaluma Community Development Commission
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2007

Functions/Programs	Expenses	Program Revenues			Total	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Primary government:						
Governmental activities:						
Community development	\$ 8,325,748	\$ 70,614	\$ 51,359	\$ 187,289	\$ 309,262	\$ (8,016,486)
Interest on long-term debt	2,407,512	-	-	-	-	(2,407,512)
Total governmental activities	\$ 10,733,260	\$ 70,614	\$ 51,359	\$ 187,289	\$ 309,262	\$ (10,423,998)

General Revenues, Contributions and Transfers:

Tax increment	15,697,091
Investment earnings	923,632
Transfers to the City of Petaluma	(1,457,000)
Total general revenues, contributions and transfers	15,163,723
Change in net assets	4,739,725
Net assets - beginning of year	10,345,218
Net assets - end of year	\$ 15,084,943

See accompanying Notes to Basic Financial Statements.

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FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

Petaluma Community Development Commission
Balance Sheet
Governmental Funds
June 30, 2007

	Major Funds			Total Governmental Funds
	Redevelopment Special Revenue	Redevelopment Debt Service	Redevelopment Capital Project	
ASSETS				
Cash and investments	\$ 3,509,713	\$ 564,392	\$ 1,318,085	\$ 5,392,190
Restricted cash and investments		116,872	30,351,971	30,468,843
Receivables:				
Accounts receivable, net	454,481	-	3,632	458,113
Intergovernmental receivables	146,161	-	293,978	440,139
Notes receivable	14,207,076	-	284,744	14,491,820
Noncurrent receivables	1,751,937	-	808	1,752,745
Land held for resale	-	-	402,053	402,053
Total assets	\$ 20,069,368	\$ 681,264	\$ 32,655,271	\$ 53,405,903
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 7,108	\$ -	\$ 76,603	\$ 83,711
Wages payable	7,872	-	16,428	24,300
Deferred revenue	2,261,211	-	-	2,261,211
Refundable deposits	-	-	147,423	147,423
Due to the City of Petaluma	20,000	-	1,600,000	1,620,000
Total liabilities	2,296,191	-	1,840,454	4,136,645
Fund Balances:				
Reserved:				
Encumbrances	-	-	14,000	14,000
Notes receivable	14,207,076	-	284,744	14,491,820
Land held for resale	-	-	402,053	402,053
Debt service	-	681,264	-	681,264
Unreserved, undesignated reported in:				
Special revenue fund	3,566,101	-	-	3,566,101
Capital projects funds	-	-	30,114,020	30,114,020
Total fund balances	17,773,177	681,264	30,814,817	49,269,258
Total liabilities and fund balances	\$ 20,069,368	\$ 681,264	\$ 32,655,271	\$ 53,405,903

See accompanying Notes to Basic Financial Statements.

Petaluma Community Development Commission
Reconciliation of the Governmental Funds Balance Sheet to the
Government-Wide Statement of Net Assets
June 30, 2007

Total Fund Balances - Total Governmental Funds \$ 49,269,258

Amounts reported for governmental activities in the Statement of Net Assets were different because:

Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet. Except for the internal service funds reported below, the capital assets were adjusted as follows: 37,565,337

Revenues which are deferred on the Governmental Funds Balance Sheet because they are not currently available are reported as revenue in the Statement of Activities and Changes in Net Assets and accordingly increase the net assets on the Statement of Net Assets. 2,261,211

Bond issuance costs are an expenditure in the governmental funds but are capitalized and amortized over the life of the bonds in the Government-Wide Financial Statements. 1,490,228

Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability on the Governmental Funds Balance Sheet. (601,039)

Long-term liabilities consisting of bonds and notes payable, were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet.

- Compensated absences (89,258)
- Long-term debt - due within one year (1,122,275)
- Long-term debt - due in more than one year (73,688,519)

Net Assets of Governmental Activities \$ 15,084,943

See accompanying Notes to Basic Financial Statements.

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Petaluma Community Development Commission
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2007

	Major Funds			Total Governmental Funds
	Redevelopment Special Revenue	Redevelopment Debt Services	Redevelopment Capital Project	
REVENUES:				
Taxes	\$ 3,035,021	\$ -	\$ 12,662,070	\$ 15,697,091
Use of money and property	150,194	8,110	866,188	1,024,492
Intergovernmental	51,359	-	187,289	238,648
Charges for services	23,084	-	-	23,084
Other revenues	45,696	38	1,796	47,530
Total revenues	3,305,354	8,148	13,717,343	17,030,845
EXPENDITURES:				
Current:				
Community development	855,768	14,485	7,398,172	8,268,425
Capital outlay	-	-	2,086,330	2,086,330
Debt service:				
Principal	-	1,140,000	-	1,140,000
Interest	-	2,066,246	18,428	2,084,674
Cost of issuance	-	844,300	-	844,300
Total expenditures	855,768	4,065,031	9,502,930	14,423,729
REVENUES OVER (UNDER) EXPENDITURES	2,449,586	(4,056,883)	4,214,413	2,607,116
OTHER FINANCING SOURCES (USES):				
Debt issuance	-	31,825,000	-	31,825,000
Premium paid	-	(568,396)	-	(568,396)
Refunding payment to escrow	-	(482,364)	-	(482,364)
Transfers in from the City of Petaluma	44,000	-	-	44,000
Transfers out to the City of Petaluma	-	-	(1,501,000)	(1,501,000)
Transfers in	18,673	3,277,100	30,122,025	33,417,798
Transfers out	(122,025)	(30,000,000)	(3,295,773)	(33,417,798)
Total other financing sources (uses)	(59,352)	4,051,340	25,325,252	29,317,240
Net change in fund balances	2,390,234	(5,543)	29,539,665	31,924,356
FUND BALANCES:				
Beginning of year	15,382,943	686,807	1,275,152	17,344,902
End of year	\$ 17,773,177	\$ 681,264	\$ 30,814,817	\$ 49,269,258

Petaluma Community Development Commission
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in
Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets
For the year ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds \$ 31,924,356

Amounts reported for governmental activities in the Statement of Activities and Changes in Net Assets were different because:

Governmental Funds reported capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets was allocated over their estimated useful lives as depreciation expense. This was the amount of capital assets recorded in the current period. 2,074,086

Revenues which were deferred on the Governmental Funds Balance Sheet because they were not currently available in prior years are reported as revenue as they have become available. In the Statement of Activities and Changes in Net Assets these amounts had been recorded in prior years, as a result they are not subject to revenue recognition in the current year. (100,860)

Compensated absences are reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, Compensated absences are not reported as expenditures in Governmental Funds. (45,079)

Bond discount is recognized as expenditure on the Governmental Funds Financial Statements. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the bond discount is capitalized and amortized over the life of the bonds. This amount represents the current year amortization. (48,374)

Bond issuance costs are recognized as expenditure on the Governmental Funds Financial Statements. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the bond issuance costs is capitalized and amortized over the life of the bonds.

Deferred charges 844,300
 Current year amortization of bond issuance costs (39,566)

Bond proceeds provided current financial resources to Governmental Funds, but issuing debt increased long-term liabilities in the Government-Wide Statement of Net Assets. Repayment of bond principal was an expenditure in Governmental Funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Assets.

Issuance of long-term debt (31,825,000)
 Premium paid on long-term debt 568,396
 Long-term debt repayments from refunding 482,364
 Long-term debt repayments 1,140,000

Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they did not require the use of current financial resources. Therefore, interest expense was not reported as expenditures in Governmental Funds. The amount represents the change in accrued interest from prior year. (234,898)

Change in Net Assets of Governmental Activities \$ 4,739,725

Petaluma Community Development Commission
Notes to Basic Financial Statements
For the year ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Petaluma Community Development Commission, of the City of Petaluma, California (Commission) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Commission's accounting policies are described below.

A. Reporting Entity

The Commission, a component unit of the City of Petaluma (City), is a community redevelopment agency formed in September 1976, pursuant to the provisions of Part 1 of Division 24 (commencing with Section 33000) of the California Health and Safety Code. Pursuant to this law, the Commission is vested with the responsibility of carrying out a duly adopted redevelopment plan. The Commission defined the Central Business District Project Area, encompassing approximately 225 acres, on September 27, 1976, amended in April 2001. The Petaluma Community Development Project Area was defined as encompassing approximately 2,740 acres on July 18, 1994 and 2001.

The Commission's primary source of revenue, other than loans, advances from the City, and bond proceeds, is an allocation of a portion of current property taxes. Property taxes allocated to the Commission from other agencies are computed in the following manner:

- a. The assessed valuation of all property within the project area is determined on the date of adoption of the redevelopment plan, and identified as the base year valuation.
- b. Property taxes based on the incremental increase in assessed values above the base year valuation are allocated to the Commission. Property taxes based on the base year assessed valuation are allocated to the City, county and other districts.

The Commission has no power to levy and collect taxes.

B. Basis of Accounting and Measurement Focus

The accounts of the Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures.

Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Government - Wide Financial Statements

The Commission's government-wide financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental activities for the Commission.

These financial statements are presented on an "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all of the Commission's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities and Changes in Net Assets are presented using the accrual basis of accounting, whereby revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

The Commission's program revenues consisted of:

- ◆ Charges for services.
- ◆ Operating grants and contributions.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated. The following interfund activities have been eliminated:

- ◆ Due to/from other funds
- ◆ Transfers in/out

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the government-wide financial statements. The Commission has presented all funds as major funds.

All governmental funds are accounted for on a spending or "*current financial resources*" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet.

The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Governmental Fund Financial Statements, Continued

Revenues are recorded when received in cash, except for revenues subject to accrual (revenue received within 60 days following year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Commission are property tax. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Deferred revenues arise when potential revenues do not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue is removed and revenue is recognized.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

C. Cash and Investments

The Agency pools cash resources from all funds in order to facilitate the management of cash. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments with varying terms.

Cash equivalents are considered amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the Commission and are presented as “Cash and Investments” in the accompanying basic financial statements.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No. 3)*, certain disclosure requirements for Deposits and Investment Risks were made in the following areas:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentrations of Credit Risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures

In accordance with GASB Statement No. 31, highly liquid money market investments with maturities of one year or less are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available. Interest earned on investment is allocated to all funds on the basis of monthly cash and investment balances.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Cash and Investments, Continued

The Commission participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in Structured Notes and Asset-backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-backed Securities are subject to market risk as to change in interest rates.

D. Restricted Cash and Investments with Fiscal Agents

Certain restricted cash and investments are held by fiscal agents for the redemption of bonded debt and for acquisition and construction of capital projects.

E. Interfund Transactions

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Advances between funds, reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

F. Capital Assets

The Commission transfers its capital assets to the City as projects are completed since the City is required to maintain all assets. The Commission retains its construction in process until the projects are completed. At that time, the assets will be contributed to the City. The PCDC cannot use tax increment for maintenance, thus, the City is required to maintain all Agency assets. Consequently, all completed capital assets are recorded as City assets.

G. Interest Payable

In the government-wide financial statements, interest payable on long-term debt is recognized as the liability is incurred for governmental activities. However in the governmental funds financial statements, interest expenditures on long-term debt are recognized when payment is due.

H. Deferred Revenue

In the Fund Financial Statements, deferred revenue is recorded when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. The Commission records deferred revenue for transactions for which funds are not available to meet current financial obligations. Typical transactions for which deferred revenue is recorded are interest on notes receivable and loans receivable financed with federal funds.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. Compensated Absences

The Commission has compensated absences of regular vacation and sick leave which are accounted for in accordance with generally accepted accounting principles (GAAP). Employees may accumulate earned vacation time. Management employees are limited to the amount, which may be earned, in a three year period. All other employees are limited to the amount, which may be earned, in a two year period.

A liability is calculated for all of the cost of compensated absences based on benefits earned by employees in the current period, for which there is a probability of payment at termination. The salary and related payroll costs are those in effect as of June 30, 2006. Compensated absences are recorded as current and non-current liabilities only on the government-wide financial statements.

J. Long-Term Debt

Government-Wide Financial Statements

Long-term debt and other long-term obligations are reported as liabilities in the appropriate activities.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Fund Financial Statements

The governmental fund financial statements do not present long-term debt but are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

Bond premiums and discounts, as well as issuance costs, are recognized during the current period. Bond proceeds are reported as other financing sources net of the applicable premium or discount. Issuance costs, whether or not withheld from the actual net proceeds received, are reported as debt service expenditures.

K. Net Assets and Fund Equity

In the government-wide financial statements, net assets are classified in the following categories:

Invested in Capital Assets, net of Related Debt - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

Restricted - This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted - This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

K. Net Assets and Fund Equity, Continued

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Commission's policy is to apply restricted net assets first.

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

L. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

M. Property Tax

Under California law, property taxes are assessed and collected by Sonoma County (County) up to 1% of assessed value, plus other increases approved by the voters. The property taxes go into a pool, and are then allocated to cities based on complex formulas. The County assesses, bills, and collects property taxes as follows:

Lien Date	January 1
Levy Date	July 1
Due Date	Secured: November 1 and February 1 Unsecured: July 1
Collection Date	Secured: December 10 and April 10 Unsecured: August 31

Property taxes levied are recorded as revenue when received, in the fiscal year of levy, under the Teeter Plan. The Teeter Plan authorizes the Auditor/Controller of the County to allocate 100% of the secured property taxes billed, but not yet paid.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

2. CASH AND INVESTMENTS

Cash and investments at June 30, 2007 consisted of the following:

Cash and investments pooled with the City	\$ 5,392,190
Restricted cash and investments	<u>30,468,843</u>
Total cash and investments	<u>\$ 35,861,033</u>

The Commission pools its cash and investments with the City in order to achieve a higher return on investment. Certain restricted funds, which are held and invested by independent outside custodians through contractual agreements, are not pooled. These restricted funds include cash with fiscal agents.

The investments made by the Agency are limited to those allowable under State statutes and include the following types of investments:

- Local Agency Investment Fund (LAIF)
- California Assessment Management Program (CAMP)
- Certificates of deposits placed with commercial banks and/or savings and loans
- Negotiable Certificates of Deposits
- Bankers Acceptances
- Securities of the U.S. Government or its Agencies
- Repurchase Agreements
- Commercial Paper
- Money Market
- Mutual Funds
- Guaranteed Investment Contracts

See the City's Comprehensive Annual Financial Report for disclosures related to cash and investments and the related interest rate risk, credit rate risk, custodial risk and concentration risk

3. LAND HELD FOR RESALE

Land held for resale is recorded in capital projects funds at the lower of cost or estimated net realizable value. The available fund balance is reserved in an amount equal to the carrying value of land and buildings held for resale because such assets are not available to finance the Commission's current operations. The amount recorded as assets held for resale and the corresponding fund balance reserved as of June 30, 2007, was \$402,053.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

4. NOTES RECEIVABLE

At June 30, 2007, the Agency had the following loans receivable:

Housing Loans		
Old Elm Partners	\$	1,305,961
Roundwalk Village Partners		933,400
Boulevard (Buckelew) Project		480,200
Downtown River Associate Lp		3,662,836
Edith St Apt Inc		169,983
Lieb Senior Apt Inc		851,184
Parklane Apt Corp		990,000
575 Vallego St Assoc		889,964
579 vallejo St Assoc		810,241
Casa Grande		1,656,655
Wood Sorrel		636,272
Petaluma Blvd Senior Apt		1,432,000
Salishan Apt Inc		388,380
		<hr/>
Total Housing Loans		14,207,076
Storefront Loan Program		284,744
		<hr/>
Total	\$	14,491,820
		<hr/> <hr/>

The Petaluma Community Development Commission entered into various loan agreements with not-for-profit agencies to finance the construction of low and moderate income housing. The terms range from 8 to 60 years, and the interest rates range from 0% to 6%. Payment is deferred until a variety of events occur, such as sale or transfer of property, failure to adhere to low and moderate income housing provisions of the promissory note, to the extent of residual receipts, or at the maturity date of the note.

The Redevelopment Agency offers low interest loans to property owners with building located in the Central Business District (Downtown) as an incentive to make improvements to the exterior storefronts.

5. DEFERRED REVENUE

Deferred revenue in the Governmental Funds Financial Statements as of June 30, 2007 was reported as follows:

Interest receivable on Notes Receivable:	\$	1,741,578
Intergovernmental revenues		65,152
Developer contributions		454,481
		<hr/>
Total deferred revenue	\$	2,261,211
		<hr/> <hr/>

These amounts are recognized as revenues in the Government-Wide Financial Statements.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

6. INTERFUND ACTIVITIES

A. Transfers In/Out

Transfers in/out for the year ended June 30, 2007 were as follows:

	Transfers In			
	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Redevelopment Capital Project</u>	<u>Total</u>
Transfers Out				
Redevelopment Special Revenue	\$ -	\$ -	\$ 122,025	\$ 122,025
Redevelopment Debt Service	-	-	30,000,000	30,000,000
Redevelopment Capital Project	18,673	3,277,100	-	3,295,773
Total	<u>\$ 18,673</u>	<u>\$ 3,277,100</u>	<u>\$ 30,122,025</u>	<u>\$ 33,417,798</u>

Transfers between funds were to provide funding for capital projects, debt service, and general and specific operation expenditures.

7. CAPITAL ASSETS

Changes in capital assets during the year ended June 30, 2007 were as follows:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Transfers to the City</u>	<u>Balance June 30, 2007</u>
Non-depreciable:				
Construction in progress	\$ 35,491,251	\$ 2,074,086	\$ -	\$ 37,565,337
Depreciable Assets:				
Equipment	-	12,245	(12,245)	-
Total	<u>\$ 35,491,251</u>	<u>\$ 2,086,331</u>	<u>\$ (12,245)</u>	<u>\$ 37,565,337</u>

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

8. LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2007 were as follows:

	Balance			Balance June 30, 2007	Classification	
	July 1, 2006	Additions	Deletions		Amounts Due Within One Year	Amounts Due in More than One Year
2000A Tax Allocation Bonds	\$ 430,000	\$ -	\$ (135,000)	\$ 295,000	\$ 145,000	\$ 150,000
2000B Tax Allocation Bonds	585,000	-	(585,000)	-	-	-
2001A Tax Allocation Bonds	2,700,000	-	(290,000)	2,410,000	305,000	2,105,000
2003A Tax Allocation Bonds	23,630,000	-	(430,000)	23,200,000	430,000	22,770,000
Unamortized Discount 2003 A TAB	(12,795)	-	474	(12,321)	(474)	(11,847)
2005A Tax Allocation Bonds	18,265,000	-	(100,000)	18,165,000	105,000	18,060,000
Deferred amt refunding 2005A TAB	(1,198,483)	-	49,937	(1,148,546)	(49,937)	(1,098,609)
Unamortized Premium 2005A TAB	157,094	-	(6,478)	150,616	6,478	144,138
2007 Tax Allocatin Bonds	-	31,825,000	-	31,825,000	115,000	31,710,000
Unamortized Premium 2007 TAB	-	(568,396)	4,441	(563,955)	(17,792)	(546,163)
Auto Plaza DDA - AD 19	570,000	-	(80,000)	490,000	84,000	406,000
Total	\$ 45,125,816	\$ 31,256,604	\$ (1,571,626)	\$ 74,810,794	\$ 1,122,275	\$ 73,688,519

2000A Tax Allocation Bonds

On June 15, 2000, the Petaluma Community Development Commission issued Tax Allocation Bonds, Series 2000A in the amount of \$18,000,000. The proceeds of the bonds were to finance the flood control project, and to fund new and continuing improvement projects in the Petaluma Community Development Project Area. This debt was partially refunded with the 2005A TAB. The defeased amount currently outstanding and removed from the long-term liabilities was \$16,700,000. The remaining balance at June 30, 2007, of \$295,000, which is included in long-term liabilities, bears an interest rate of 5%.

The annual debt service requirements for the 2000A Tax Allocation Bonds outstanding at June 30, 2007, was as follows:

For the Year Ending June 30,	Principal		Interest		Total	
2008	\$ 145,000	\$ 14,750	\$ 14,750	\$ 159,750		
2009	150,000	7,500	7,500	157,500		
Total	\$ 295,000	\$ 22,250	\$ 22,250	\$ 317,250		

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

8. LONG-TERM DEBT, Continued

2001A Tax Allocation Bonds

On June 4, 2001, the Commission issued Refunding Tax Allocation Bonds, Series 2001A in the amount of \$4,025,000. The proceeds of the bonds were used to refund the 1992 Tax Allocation Bonds and to fund the development of the auto plaza located in the Petaluma Community Development Project Area. The Bonds mature annually each May 1 from 2002 to 2014, in amounts ranging from \$250,000 to \$390,000 and bear interest at rates ranging from 3.50% to 4.50%. Interest is payable semiannually on May 1 and November 1. The Bonds maturing on or after May 1, 2010, are subject to optional redemption prior to maturity, in whole or in part, either in inverse order of maturity or by lot within any one maturity date, on any date on or after May 1, 2009, at a price equal to the principal amount, plus accrued interest on the redemption date. The bonds are payable from and secured by tax revenues. The outstanding balance of the bonds was \$2,410,000 as of June 30, 2007.

The annual debt service requirements for the 2001A Tax Allocation Bonds outstanding at June 30, 2007, was as follows:

For the Year Ending June 30,	Principal	Interest	Total
2008	\$ 305,000	\$ 100,730	\$ 405,730
2009	315,000	89,140	404,140
2010	330,000	76,540	406,540
2011	340,000	63,340	403,340
2012	355,000	49,315	404,315
2013-2014	765,000	51,601	816,601
Total	\$ 2,410,000	\$ 430,666	\$ 2,840,666

2003A Tax Allocation Bonds

On October 28, 2003, the Commission issued Tax Allocation Bonds, Series 2003A in the amount of \$23,630,000. The proceeds of the bonds will be used to finance redevelopment projects within the Petaluma Community Development Project area. The Bonds mature annually each May 1 from 2007 to 2033, in amounts ranging from \$430,000 to \$8,215,000 and bear interest at rates ranging from 2.25% to 5.00%. Interest is payable semiannually on May 1 and November 1. The Bonds maturing on or after May 1, 2014, are subject to optional redemption prior to maturity, in whole or in part, either in inverse order of maturity or by lot within any one maturity date, on any date on or after May 1, 2013, at a price equal to the principal amount, plus accrued interest on the redemption date. The bonds are payable from and secured by tax revenues. The outstanding balance of the bonds was \$23,200,000 as of June 30, 2007.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

8. LONG-TERM DEBT, Continued

2003A Tax Allocation Bonds, Continued

The annual debt service requirements outstanding at June 30, 2007 were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2008	\$ 430,000	\$ 1,062,330	\$ 1,492,330
2009	445,000	1,052,655	1,497,655
2010	460,000	1,040,418	1,500,418
2011	475,000	1,026,043	1,501,043
2012	495,000	1,010,011	1,505,011
2013-2017	2,630,000	4,766,621	7,396,621
2018-2022	3,160,000	4,176,765	7,336,765
2023-2027	3,985,000	3,370,105	7,355,105
2028-2032	8,245,000	2,215,798	10,460,798
2033	2,875,000	143,750	3,018,750
Total	\$ 23,200,000	\$ 19,864,496	\$ 43,064,496

The bonds were issued at a discount of \$14,217 which is being amortized over the 30 years life of the bonds resulting in an annual amortization of \$474.

2005A Tax Allocation Bonds

On September 21, 2005, the Commission issued Refunding Tax Allocation Bonds, Series 2005A Tax Allocation Bonds in the amount of \$18,355,000. The proceeds of the bonds will be used to refund the 2000A Tax Allocation Bonds and finance the issuance of the 2005A Refunding Tax Allocation Bonds. The Bonds mature annually each May 1 from 2006 to 2030, in amounts ranging from \$90,000 to \$1,420,000 and bear interest at rates ranging from 5.00% to 5.75%. Interest is payable semiannually on May 1 and November 1. The Bonds maturing on or before May 1, 2016, are subject to optional redemption prior to maturity, in whole or in part, either in inverse order of maturity or in inverse order of maturity and by lot within any one maturity date, on any date on or after May 1, 2015, at a price equal to the principal amount, plus accrued interest on the redemption date. The bonds are payable from solely from secured tax revenues. The outstanding balance of the bonds was \$18,165,000 as of June 30, 2007.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

8. LONG-TERM DEBT, Continued

2005A Tax Allocation Bonds, Continued

The annual debt service requirements outstanding at June 30, 2007 were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2008	\$ 105,000	\$ 792,351	\$ 897,351
2009	105,000	789,201	894,201
2010	260,000	786,051	1,046,051
2011	270,000	778,251	1,048,251
2012	275,000	769,814	1,044,814
2013-2017	2,920,000	3,650,281	6,570,281
2018-2022	4,550,000	2,901,185	7,451,185
2023-2027	5,625,000	1,838,623	7,463,623
2028-2031	4,055,000	412,250	4,467,250
Total	\$ 18,165,000	\$ 12,718,007	\$ 30,883,007

The bonds were issued at a premium of \$161,953 which is being amortized over the 25 years life of the bonds resulting in an annual amortization of \$6,478.

In connection with the issuance of the bonds, the City recorded a deferral on refunding of debt which is reported as part of long-term debt. This deferral was in connection with interest payments made to the escrow agent for future payments of interest. The total amount deferred was \$1,248,420 which will be amortized over the 25 years life of the bonds resulting in an annual amortization of \$49,937.

2007 Tax Allocation Bonds

On April 10, 2007, the Commission issued Subordinate Tax Allocation Bonds, Series 2007 in the amount of \$31,825,000. The proceeds of the bonds will be used to refund the 2000B Tax Allocation Bonds and provide \$30,000,000 in project funds. The Bonds mature annually each May 1 from 2008 to 2039, in amounts ranging from \$115,000 to \$4,355,000 and bear interest at rates ranging from 4.00% to 4.5%. Interest is payable semiannually on May 1 and November 1. The Bonds maturing on or before May 1, 2016, are subject to optional redemption prior to maturity, in whole or in part, either in inverse order of maturity or in inverse order of maturity and by lot within any one maturity date, on any date on or after May 1, 2015, at a price equal to the principal amount, plus accrued interest on the redemption date. The bonds are payable solely from secured tax revenues. The outstanding balance of the bonds was \$31,825,000 as of June 30, 2007.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

8. LONG-TERM DEBT, Continued

2007 Tax Allocation Bonds, Continued

The annual debt service requirements outstanding at June 30, 2007 were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2008	\$ 115,000	\$ 1,479,456	\$ 1,594,456
2009	205,000	1,393,311	1,598,311
2010	205,000	1,385,111	1,590,111
2011	220,000	1,376,911	1,596,911
2012	230,000	1,367,011	1,597,011
2013-2017	1,280,000	5,372,245	6,652,245
2018-2022	1,555,000	6,472,656	8,027,656
2023-2027	1,870,000	6,144,550	8,014,550
2028-2031	2,195,000	5,724,781	7,919,781
2032-2037	15,430,000	5,395,888	20,825,888
2038-2039	8,520,000	579,375	9,099,375
Total	\$ 31,825,000	\$ 36,691,296	\$ 68,516,296

The bonds were issued at a discount of \$568,396 which is being amortized over the 32-year life of the bonds resulting in an annual amortization of \$17,762.

The deferred loss on refunding of \$2,364, was immaterial, and thus not recorded.

Auto Plaza DDA- AD 19

The Commission has an obligation under the Auto Center Disposition and Development Agreement, dated 1992 to refund 50% of assessments paid by property owners in relation to the Assessment District 19 Bonds. On February 3, 1992, the Assessment District 19 Bonds were issued in the amount of \$1,080,000. The proceeds of the bonds were to finance public improvements at the Auto Plaza. The Bonds mature annually each September 2 from 1997 to 2010, in amounts ranging from \$45,000 to \$103,000 and bear interest at rates ranging from 5.60% to 7.75%. Interest is payable semiannually on March 2 and September 2. The bonds are payable from and secured by assessment paid by the property owners. The outstanding balance was \$490,000 as of June 30, 2007.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

8. LONG-TERM DEBT, Continued

Auto Plaza DDA- AD 19, Continued

The annual debt service requirements on these bonds outstanding at June 30, 2007, were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2008	\$ 84,000	\$ 34,407	\$ 118,407
2009	92,000	27,782	119,782
2010	100,000	20,435	120,435
2011	103,000	12,594	115,594
2012	111,000	4,301	115,301
Total	\$ 490,000	\$ 99,519	\$ 589,519

Defeased Debt

During fiscal year 2006-2007, the Commission issued Subordinate Tax Allocation Bonds Series 2007 in the amount of \$31,825,000 and defeased the outstanding principal, in the amount of \$480,000, of the 2000B Tax Allocation Refunding Bonds.

The refundings were undertaken to reduce total debt service payments, consolidate issues following project area fiscal merger and to obtain an estimated net PV savings of \$4,177.

The balance of the defeased bonds outstanding as of June 30, 2007, was \$370,000.

Non-Agency Obligation Debt

Oakmont project - the Redevelopment Agency issued \$4,750,000 in Multifamily Housing Revenue Bonds, with a variable rate of interest, not to exceed 12%, with the variable rate to be determined by the marketing agent. The bonds will mature April 1, 2026. Current balance is \$3,750,000. The proceeds from the bonds were used to make a loan to Oakmont Retirement Investors, LLC for the purpose of financing the acquisition and construction of a 76-unit assisted living care/multi-family rental facility known as Oakmont at Petaluma. In August 1997, the Commission consented to a sale of the project from Oakmont Retirement Investors, LLC to Windchime of Walnut Creek Investors, LP, a California limited partnership. The bonds are special obligation of the Commission, payable solely from the rental revenue and other assets pledged or assigned to payment of the bonds by Windchime of Walnut Creek, LP. These bonds are not recorded as liabilities on the City's financial statements.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

8. LONG-TERM DEBT, Continued

Non-Agency Obligation Debt, Continued

On September 15, 2003, the Commission issued Multi-family Housing Revenue Bonds and Taxable Multi-family Housing Revenue Bonds in the amount of \$6,197,000. Current balance is \$6,074,000. The proceeds of the bonds will be used to finance the construction and equipping of an 81 unit, multifamily, rental housing development in the City of Petaluma, known as the "Downtown River Apartments". The bonds are special obligation of the Commission payable solely from the rental revenue and other assets pledged or assigned to payment of the bonds by the obligator.

Non-Agency Defeased Debt

In prior years, the Commission has defeased bond issues by creating separate, irrevocable trust funds. New debt was issued, and the proceeds were used to purchase US government securities, which were placed in the trust funds. The investments, and fixed earnings from the investments, are expected to be sufficient to fully service the defeased debt, until the debt is called or matures. For financial reporting purposes, the debt is considered defeased. Consequently, the trusts' assets and liabilities are not included in the Commission financial statements.

At June 30, 2007, the amount of Redevelopment tax allocation defeased debt outstanding, but removed from the long-term liabilities, totaled \$17,445,000.

9. COMPENSATED ABSENCES

The Agency accrues a liability for the vested and unpaid compensated absences (accrued vacation, sick leave, compensatory time and administrative leave). The balance at June 30, 2007 was \$89,258.

	Balance			Balance	Due in	Due in More
	July 1, 2006	Additions	Deletions	June 30, 2007	One Year	Than One Year
Governmental activities	\$ 44,179	\$ 127,187	\$ (82,108)	\$ 89,258	\$ 17,933	\$ 71,325
Total	\$ 44,179	\$ 127,187	\$ (82,108)	\$ 89,258	\$ 17,933	\$ 71,325

10. COMMITMENT AND CONTINGENCIES

The Commission's year-end commitments for construction contracts was \$7,765 and for professional services commitments, \$490,020 as of June 30, 2007.

The Commission contributed to the construction of the downtown parking garage, a project which was also funded by Special Assessment District 14. The Commission pays parking credit to the district's property owners, who own residential property, or who own business and provide improved off-street parking in the district. The parking credits totaled \$53,044 for the fiscal year ended June 30, 2007, and are not to exceed \$56,000 in any one year.

Petaluma Community Development Commission
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2007

10. COMMITMENT AND CONTINGENCIES, Continued

Pass-through Agreements

The Petaluma Community Development Project Area is a party to pass-through agreements relating to property tax allocations with Sonoma County, Sonoma County Library, Cinnabar School District, Waugh School District, Petaluma City School District, Sonoma County Junior College District and Old Abode School District. The County and Library agreements allow the County to receive annual property tax revenue based upon increases in assessed valuation under state law not to exceed 2% and the County and Library will each receive 96% of the property tax revenue that the agencies would have received based upon the fiscal year 1993-1994 assessed valuation. The School Districts have elected under Health and Safety Code Section 33676 to receive 100% of any taxes imposed by the District and the annual property tax revenue based on increases in assessed valuation allowed under state law not to exceed 2%.

During the fiscal year, the Petaluma Community Development Project Area received \$4,376,086 in tax increment revenue, which was passed-through to the County, the Library and the School Districts mentioned above. This amount was recorded as both tax increment revenue and general government expenditure.

The Central Business District Project Area was amended in 2001. The tax increment related to the increased project area is subject to a statutory pass-through amount of 25%. During the current fiscal year, the Central Business District Project Area received \$206,373 in tax increment passed-through to various other local governmental agencies, with the highest pass-through amount going to Sonoma County, School Districts and the City of Petaluma. This amount was recorded as tax increment revenue and as a general government expenditure.

11. REDEVELOPMENT ACTIVITIES

On October 18, 2006 an ordinance approving and adopting an amendment to the redevelopment plan, fiscally merging the Central Business District Project Area with the Petaluma Community Development Project Area was approved by the City Council/PCDC Governing Board. The amendment provides for the fiscal merger of the project areas in order to pool tax increment revenue and establish a unified bonded indebtedness limit for the two project areas, while retaining the separate identity of each project area for other purposes. The amendment increases the outstanding bonded indebtedness limit to the sum of \$250,000,000, but does not alter the limitation on the amount of tax increment revenue that may be allocated to PCDC over the life of the redevelopment plan.

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REQUIRED SUPPLEMENTARY INFORMATION

Petaluma Community Development Commission
Required Supplementary Information
For the year ended June 30, 2007

1. BUDGETS AND BUDGETARY ACCOUNTING

An annual budget is adopted by the Commissioners prior to the first day of the fiscal year. The budget process includes a detailed review of proposed budget by the Executive Director, and a final review by the Finance Director. The recommended budget that is transmitted to the Commissioners for its review before the required date of adoption. Once transmitted to the Commissioners, the proposed budget is made available for public inspection. A public hearing is held to give the public the opportunity to comment upon the proposed budget. Notice of such public hearing is given in a newspaper of general circulation.

The adoption of the budget is accomplished by the approval of a Budget Resolution. The legal level of budgetary control is at the department level. Any budget modification, which would result in an appropriation increase, requires Commissioners' approval. The Finance Director and City Manager are jointly authorized to transfer appropriations within a departmental budget.

Reported budget figures are as originally adopted or subsequently amended and include prior year encumbrances. Such budget amendments during the year, including those related to supplemental appropriations, did not cause these reported budget amounts to be significantly different than the originally adopted budget amounts. All appropriations which are not obligated, encumbered or expended at the end of the fiscal year lapse and become a part of the unreserved fund balance which may be appropriated for the next fiscal year.

An annual budget for the year ended June 30, 2006, was adopted and approved by the Commissioners for the special revenue, debt service and capital projects funds. These budgets are prepared on the modified accrual basis of accounting. The budgets of the capital projects funds are primarily long-term budgets, which emphasize major programs and capital outlay plans extending over a number of years. However the budget for the capital projects funds are approved by the Commissioners annually.

Budget amounts are reported as originally adopted and as further amended by the Commissioners.

Petaluma Community Development Commission
Required Supplementary Information, Continued
For the year ended June 30, 2007

1. BUDGETARY INFORMATION, Continued

Budgetary Comparison Schedule, Redevelopment Special Revenue Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
Fund balance, July 1	\$ 15,382,943	\$ 15,382,943	\$ 15,382,943	\$ -
Resources (inflows):				
Taxes	2,500,000	2,500,000	3,035,021	535,021
Use of money and property	30,000	30,000	150,194	120,194
Intergovernmental	1,485,000	1,485,000	51,359	(1,433,641)
Charges for current services	18,000	18,000	23,084	5,084
Other	328,000	372,000	45,696	(326,304)
Transfer from other funds	-	-	18,673	18,673
Transfer from City	-	44,000	44,000	-
Total resources	4,361,000	4,449,000	3,368,027	(1,080,973)
Amount available for appropriation	19,743,943	19,831,943	18,750,970	(1,080,973)
Charges to appropriations (outflows):				
Departmental:				
Community development	3,318,550	4,333,550	855,768	3,477,782
Transfers to other funds	1,813,000	1,328,000	122,025	1,205,975
Total charges to appropriations	5,131,550	5,661,550	977,793	4,683,757
Fund balance at June 30,	\$ 14,612,393	\$ 14,170,393	\$ 17,773,177	\$ 3,602,784

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SUPPLEMENTARY INFORMATION

Petaluma Community Development Commission
Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Redevelopment Debt Service Fund
For the year ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Fund balance, July 1	\$ 686,807	\$ 686,807	\$ 686,807	\$ -
Resources (inflows):				
Use of money and property	2,000	2,000	8,110	6,110
Other	-	-	38	38
Transfers from other funds	3,277,100	3,277,100	3,277,100	-
Debt issuance	-	-	31,825,000	31,825,000
Premium paid	-	-	(568,396)	(568,396)
Total resources	3,279,100	3,279,100	34,541,852	31,262,752
Amount available for appropriation	3,965,907	3,965,907	35,228,659	31,262,752
Charges to appropriations (outflows):				
Departmental:				
Community development	70,700	70,700	14,485	56,215
Debt service:				
Principal	1,140,000	1,140,000	1,140,000	-
Interest	2,066,400	2,066,400	2,066,246	154
Cost of issuance	-	779,000	844,300	(65,300)
Payment to escrow agent	-	-	482,364	(482,364)
Transfer to other funds	-	30,000,000	30,000,000	-
Total charges to appropriations	3,277,100	34,056,100	34,547,395	(491,295)
Fund balance at June 30,	\$ 688,807	\$ (30,090,193)	\$ 681,264	\$ 30,771,457

Petaluma Community Development Commission
Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Redevelopment Capital Project
For the year ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Fund balance, July 1	\$ 1,275,152	\$ 1,275,152	\$ 1,275,152	\$ -
Resources (inflows):				
Taxes	11,630,000	11,630,000	12,662,070	1,032,070
Use of money and property	200,000	200,000	866,188	666,188
Intergovernmental	2,000,000	2,000,000	187,289	(1,812,711)
Other	-	-	1,796	1,796
Debt issuance	10,000,000	35,000,000	-	(35,000,000)
Transfers from other funds	10,382,818	4,594,000	30,122,025	25,528,025
Total resources	34,212,818	53,424,000	43,839,368	(9,584,632)
Amount available for appropriation	35,487,970	54,699,152	45,114,520	(9,584,632)
Charges to appropriations (outflows):				
Departmental:				
Community development	7,347,350	12,230,250	7,398,172	4,832,078
Capital outlay	12,452,000	8,464,300	2,086,330	6,377,970
Debt Service:				
Interest and fiscal charges	-	-	18,428	(18,428)
Transfers to other funds	12,408,100	9,098,100	3,295,773	5,802,327
Transfers to the City of Petaluma	1,501,000	1,501,000	1,501,000	-
Total charges to appropriations	33,708,450	31,293,650	14,299,703	16,993,947
Fund balance at June 30,	\$ 1,779,520	\$ 23,405,502	\$ 30,814,817	\$ 7,409,315

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Commissioners
of the Petaluma Community Development Commission
Petaluma, California

We have audited the basic financial statements of the Petaluma Community Development Commission (Commission), a component unit of the City of Petaluma (City), as of and for the year ended June 30, 2007, and have issued our report thereon dated November 26, 2007. We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the basic financial statements of the Commission are free of material misstatements, we performed tests of its compliance with certain provision of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. Such provisions included those provisions of laws identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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To the Commissioners
of the Petaluma Community Development Commission
Petaluma, California
Page 2

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

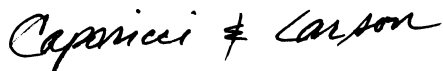
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal over financial reporting control that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The result of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Commission in a separate letter dated November 26, 2007.

This report is intended solely for the information and use of management, the Commission Board and the State Controller and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Oakland, California
November 26, 2007